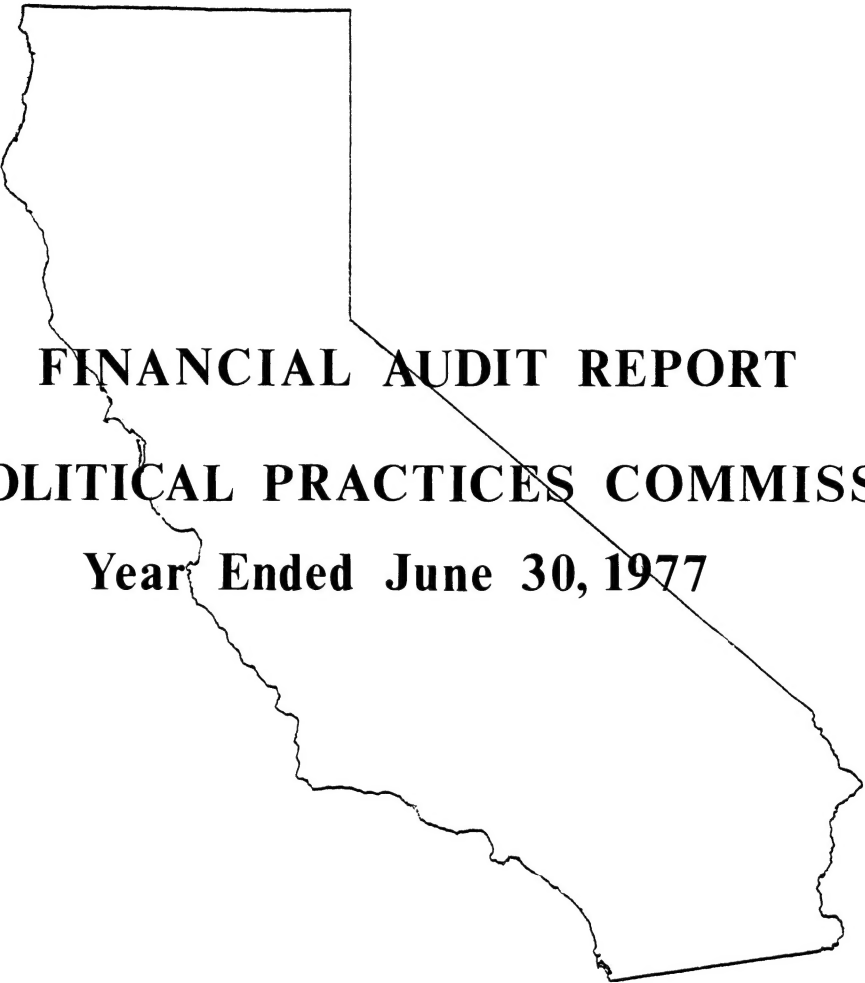




Joint Legislative Audit Committee
Office of the Auditor General



REPORT TO THE CALIFORNIA LEGISLATURE



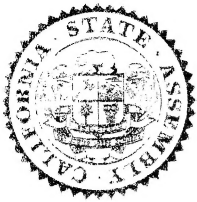
FINANCIAL AUDIT REPORT FAIR POLITICAL PRACTICES COMMISSION Year Ended June 30, 1977

Office of the Auditor General
1955 - 1978

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

704.2

FINANCIAL AUDIT OF THE
FAIR POLITICAL PRACTICES COMMISSION
YEAR ENDED JUNE 30, 1977



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Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature

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February 2, 1978

704.2

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's financial audit of the Fair Political Practices
Commission, Year Ended June 30, 1977.

The auditors are Curt Davis, CPA, Supervisor, and Dennis Reinholtsen.

Cordially,

MIKE CULLEN
Chairman

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a fiscal audit of the Fair Political Practices Commission. This audit was conducted under authority vested in the Auditor General by Section 10527 of the Government Code.

The Fair Political Practices Commission was established by the Political Reform Act of 1974 and began operations in January 1975. The Commission has five members, including the chairman. No more than three members of the Commission may be members of the same political party.

The Fair Political Practices Commission has primary responsibility for impartially and effectively administering and implementing the Political Reform Act of 1974. To fulfill this responsibility the Commission adopts, amends and rescinds rules and regulations to carry out the purposes and provisions of the Act; issues opinions to persons who request them with respect to their duties under the Act; prescribes forms for reports, statements, notices and other documents under the Act; prepares and publishes manuals and instructions to facilitate compliance with and enforcement of the Act; explains the duties of persons and committees under the Act; provides assistance to agencies and public officials in administering the provisions of the Act; investigates possible violations of the Act; conducts hearings and applies

sanctions provided by the Act; provides technical assistance to state and local agencies in preparing Conflict of Interest Codes; reviews and approves the codes of state agencies, county boards of supervisors, city councils and all local government agencies with jurisdiction in more than one county.

In accordance with the Political Reform Act of 1974, Section 83122 of the Government Code, the Commission receives a statutory General Fund allocation of \$1 million adjusted annually for cost-of-living changes. In addition, the Act provides for the Legislature to appropriate such additional amounts to the Commission and other agencies as may be necessary to carry out the provisions of the title.

For fiscal year 1976-77 the Commission received allocations totalling \$1,280,917. The allocations consisted of \$1,217,710 for support operations under the provisions of Section 83122; \$53,207 for salary increases and employee benefits appropriated by the Legislature; and \$10,000 for additional costs incurred by the Commission for additional financial disclosure statements mandated by Chapter 129, Statutes of 1976.

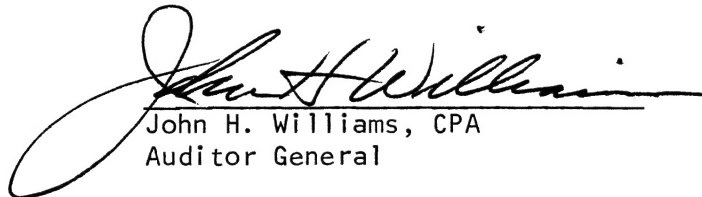
AUDITOR'S OPINION

The Joint Legislative Audit Committee
of the California Legislature:

We have examined the statement of financial condition of the Fair Political Practices Commission as of June 30, 1977, and the related statements of general fixed assets, changes in operating clearing, budgeted and actual expenditures, and revenues for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial condition of the Fair Political Practices Commission as of June 30, 1977, and the results of operations and its changes in operating clearing for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The statement of financial condition of the Fair Political Practices Commission as of June 30, 1976, and the related statements of general fixed assets, budgeted and actual expenditures and revenues for the year then ended, which are presented for comparative purposes only, were not audited by us and, accordingly, we do not express an opinion on them.



John H. Williams, CPA
Auditor General

January 13, 1978

Staff: Curt Davis, CPA
Dennis Reinholtsen

FAIR POLITICAL PRACTICES COMMISSION
GENERAL FUND
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1977

(With Unaudited Amounts at June 30, 1976)

	June 30, <u>1977</u>	June 30, <u>1976</u>
<u>Assets</u>		
Cash	\$ 5,002	\$(4,315)
Accounts Receivable	16,819	30,614
Prepayments to Other Funds	31,723	-0-
Expense Advances to Employees	<u>1,333</u>	<u>3,881</u>
Total	<u>\$54,877</u>	<u>\$30,180</u>
 <u>Liabilities, Encumbrances Outstanding, and Operating Clearing</u>		
Accounts Payable	\$41,096	\$31,454
Encumbrances Outstanding (Note 2)	68,883	57,143
Operating Clearing (debit), per Exhibit B (Note 4)	<u>(55,102)</u>	<u>(58,417)</u>
Total	<u>\$54,877</u>	<u>\$30,180</u>

The accompanying notes are an integral part of these financial statements.

FAIR POLITICAL PRACTICES COMMISSION
GENERAL FUND
STATEMENT OF CHANGES IN OPERATING CLEARING (NOTE 4)
YEAR ENDED JUNE 30, 1977

(With Unaudited Amount for Year Ended June 30, 1976)

Operating Clearing, June 30, 1976	\$ <u>(58,417)</u>
Additions:	
Revenues	8,004
Prior Year Appropriation Adjustments	15,328
Net Disbursements per State Controller	<u>1,250,611</u>
Total Additions	<u>\$1,273,943</u>
Deductions:	
Net Appropriation Expenditures	<u>1,270,628</u>
Total Deductions	<u>\$1,270,628</u>
Operating Clearing, June 30, 1977	\$ <u><u>(55,102)</u></u>

The accompanying notes are an integral part of these financial statements.

FAIR POLITICAL PRACTICES COMMISSION
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL EXPENDITURES
YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for Year Ended June 30, 1976)

	<u>Budget as Adjusted</u>	<u>Actual</u>	(Over) Under <u>Budget</u>	Actual Prior <u>Year</u>
Personal Services	\$ <u>893,026</u>	\$ <u>909,268</u>	\$ <u>(16,242)</u>	\$ <u>696,687</u>
Operating Expenses and Equipment:				
General	\$ 96,844	\$ 106,338	\$ (9,494)	\$ 174,863
Training	\$ 1,600	1,833	(233)	418
Printing	15,000	15,259	(259)	9,113
Communications	59,680	50,445	9,235	36,602
Travel--In-State	35,000	30,108	4,892	25,257
Travel--Out-of-State	5,000	1,234	3,766	451
Facilities Operation	49,006	54,691	(5,685)	59,520
Contractual and Con- sultative Services	67,761	53,278	14,483	50,550
Data Processing Services	50,000	52,160	(2,160)	5,000
Equipment	<u>8,000</u>	<u>1,533</u>	<u>6,467</u>	<u>19,449</u>
Total Operating Expense and Equipment	\$ <u>387,891</u>	\$ <u>366,879</u>	\$ <u>21,012</u>	\$ <u>381,223</u>
Total Expenditures	\$1,280,917	\$1,276,147	\$ 4,770	\$1,077,910
Reimbursements	<u>-0-</u>	<u>(5,519)</u>	<u>5,519</u>	<u>(2,616)</u>
Net Expenditures	<u>\$1,280,917</u>	<u>\$1,270,628</u>	<u>\$ 10,289</u>	<u>\$1,075,294</u>

The accompanying notes are an integral part of these financial statements.

FAIR POLITICAL PRACTICES COMMISSION
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for Year Ended June 30, 1976)

	<u>Budget</u>	<u>Current Year</u>	<u>Over (Under) Budget</u>	<u>Prior Year</u>
Sale of Documents	\$ -0-	\$ 2,286	\$ 2,286	\$ -0-
Miscellaneous Services to the Public	-0-	3,727	3,727	-0-
Miscellaneous Revenue	<u>-0-</u>	<u>1,991</u>	<u>1,991</u>	<u>410</u>
Total Revenues	<u>\$ -0-</u>	<u>\$ 8,004</u>	<u>\$ 8,004</u>	<u>\$ 410</u>

The accompanying notes are an integral part of these financial statements.

FAIR POLITICAL PRACTICES COMMISSION
GENERAL FUND
STATEMENT OF GENERAL FIXED ASSETS (NOTE 3)
JUNE 30, 1977

(With Unaudited Amounts at June 30, 1976)

	<u>June 30, 1977</u>	<u>June 30, 1976</u>
General Fixed Assets:		
Equipment	\$48,021	\$36,921
Advances to Architecture Revolving Fund	<u>9,000</u>	<u>-0-</u>
Total General Fixed Assets	<u>\$57,021</u>	<u>\$36,921</u>
Reserves for General Fixed Assets:		
Investment in Fixed Assets	\$48,021	\$36,921
Advances to Architecture Revolving Fund	<u>9,000</u>	<u>-0-</u>
Total Reserves for General Fixed Assets	<u>\$57,021</u>	<u>\$36,921</u>

The accompanying notes are an integral part of these financial statements.

FAIR POLITICAL PRACTICES COMMISSION
GENERAL FUND
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1977

1. Summary of Significant Accounting Policies

The accounting records of the Fair Political Practices Commission are maintained by Contract Fiscal Services, a section of General Services. The accounting policies conform to generally accepted accounting principles as applicable to governmental units and as contained in the State Administrative Manual. The Fair Political Practices Commission accounts for only its portion of the State's General Fund. Central Accounts for the General Fund are maintained by the State Controller's Office.

Income: During the year income accounts are maintained on a cash basis. At June 30, accrued receivables estimated to be collected during the following fiscal year are credited to the year in which they are earned. Accrued receivables for which collection is indefinite are fully reserved until collected.

Expenditures: During the year expenditures are, in general, recorded at the time claims for payment are filed with the State Controller. At June 30, all valid encumbrances against appropriations are accrued as expenditures (see Note 2).

Liabilities: Accumulated liability for vacation, although not recorded on the statements, is an actual liability that does exist. The related expenditures are recorded when paid. The

amount of liability associated with unused vacation at June 30, 1977 is not readily determinable under the statewide accounting system.

2. Encumbrances Outstanding

At the end of the fiscal year all valid encumbrances against appropriations are accrued as expenditures. The total encumbrances at year end that cover services not yet rendered or goods not yet received are reported as Encumbrances Outstanding in the Statement of Financial Condition.

3. General Fixed Assets

Equipment purchases are recorded as expenditures in the year of purchase or encumbrance and are capitalized at acquisition cost in the Statement of General Fixed Assets.

Advances to the Architecture Revolving Fund are for capital improvement projects. The advances are recorded as expenditures in the year the transfer is made even though the actual expenditure from that fund may not occur until a later date. Advances in excess of expenditures, if any, are returned upon completion of the project.

4. Operating Clearing

This account is the connecting link between the Fair Political Practices Commission's portion of the General Fund and the central accounts of the General Fund maintained by the State Controller's Office. The account balance at June 30, 1977 represents a clearing account between the Fair Political Practices Commission and the State Controller's Office.

5. Litigation Concerning Fair Political Practices Commission

According to Section 91012 of the Political Reform Act of 1974, the court may award to a plaintiff or defendant, other than an agency, who prevails in any action authorized by this title his costs of litigation, including reasonable attorney's fees.

The Commission has 16 cases pending. In all cases except one, the opposition has not sought damages from the Commission.

In two cases, opposing parties have sought attorney's fees from the Commission. Most of the opposing parties have sought court costs.

Most of the litigation in which the Commission is participating involves legal issues without precedent to govern them, which makes it difficult to predict the outcome or to estimate any possible loss.

State of California



Fair Political Practices Commission

P.O. BOX 807 • SACRAMENTO, 95804 • • • 1100 K STREET BUILDING, SACRAMENTO, 95814

Technical Assistance/Administration
(916) 322-5660

• • • Executive/Legal
322-5901

• • • Enforcement
322-6441

• • • Conflict of Interest
322-6444

January 30, 1978

Mr. John H. Williams
Office of the Auditor General
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

Thank you for allowing us a pre-publication review of your office's Report 704.2, "Financial Audit of the Fair Political Practices Commission." After examining the document, we have no recommendations as to how it may be made more accurate or otherwise improved. We wish to congratulate your office and particularly Curt Davis, CPA, and Dennis Reinholtsen, of your staff, for the professional manner in which they went about their work on this project.

It is gratifying to know that during the last year, your office has arranged for two thorough audits of the Commission and the auditing teams have concluded their inquiries with the finding that the Commission is operating efficiently, economically and otherwise in a financially responsible manner. Last August you released Report 704.1, "Efficiencies and Economies of the Administration of the Political Reform Act of 1974," a report produced for your office under contract by the international accounting firm of Arthur Anderson & Company. The Anderson team of accountants and systems analysts concluded that the Commission, as well as the other three agencies (the Franchise Tax Board, the Office of the Secretary of State, and the Office of the Attorney General) involved in administering the Political Reform Act, were performing their tasks with efficiency and economy. Report 704.2, a fiscal audit of the Fair Political Practices Commission, includes not a single adverse finding and concludes that the Commission has been operating "...in conformity with generally accepted accounting principles..."

Thank you again for allowing us to comment prior to the release of your audit.

Very truly yours,

Michael Bennett
Executive Director